

'WATER SUPPLY AGREEMENT

The parties to this agreement, entered into this 12th day of July 2002, are IMPERIAL IRRIGATION DISTRICT, an irrigation district (hereinafter referred to as "IID"); and CE OBSIDIAN ENERGY LLC, a Delaware limited liability company (hereinafter referred to as "CEOE").

1. RECITALS:

This agreement (hereinafter referred to as the "Agreement") is made with reference to the following facts:

- 1.1. WHEREAS, CEOE is currently undertaking geothermal development activities precedent to the construction and operation of the proposed CEOE Geothermal Power Project (hereinafter referred to as the "Project") located within the service area of the IID, Imperial County, California. The expected site of the proposed Project is defined as the Southwest quarter of Section 33, T.11S. R. 13E., of the S.B.B.M.
- 1.2. WHEREAS, CEOE requires a continuous supply of water in connection with construction and operation of the Project.
- 1.3. WHEREAS, the Board of Directors of the IID has determined that it is in its best interest to make available up to 1,000 acre of water per calendar year from its canal system for beneficial consumptive use by CEOE in accordance with the terms and conditions hereinafter recited.

2. DEFINITIONS:

For purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires, the following terms shall have the following meanings:

- 2.1. Aggregate Requirement – With respect to any given calendar year, a volume of water consisting of the aggregate of (i) the Historical Use Amount and (ii) the Conservation Project Amount.
- 2.2. Conservation Project Amount – The aggregate of the verified water volume yields associated with (i) any Initial Conservation Project Payment Election and (ii) any Supplemental Conservation Project Election(s) made in or prior to any given calendar year.
- 2.3. Effective Date – The date of execution of this Agreement by both parties.
- 2.4. Excess Requirement – With respect to any given calendar year, the volume of water consumed by CEOE for the Project for such year (i) greater than the

Historic Use Amount but (ii) less than the Aggregate Requirement applicable to such year.

2.5. Historical Use Amount - A volume of water consisting of 763 acre-feet per calendar year.

2.6. Initial Conservation Project Payment – An up-front, one time fee, in an amount mutually agreed to by CEOE and IID, payable with respect to the exercise of an Initial Conservation Project Payment Election.

2.7. Initial Conservation Project Payment Election - An election to be exercised, if at all, by CEOE to make a one-time payment to IID representing the cost to IID of implementing a specified water conservation project, with a defined water volume yield.

2.8. Project Startup Period - The initial six months of startup of the Project.

2.9. Supplemental Conservation Project Election – An election to be exercised, if at all, by CEOE subsequent to the Initial Conservation Project Payment Election to make a supplemental one-time payment to IID representing the cost to IID of implementing a specific supplemental conservation project, with a defined water volume yield.

2.10. Supplemental Conservation Project Payment – An up-front, one-time fee, in an amount mutually agreed to by CEOE and IID, payable with respect to the exercise of a Supplemental Conservation Project Election.

3. AGREEMENT:

3.1. In consideration of the mutual covenants contained herein, CEOE and IID agree as follows.

4. DELIVERY:

4.1. IID shall permit CEOE to take from an IID operated canal at the location depicted under this section (or where otherwise agreed by the parties) such water as may be required by CEOE for use in and incidental to the operation of the Project, and for no other purpose in a total quantity not to exceed 1,000 acre-feet during any calendar year (the "Maximum Use Amount"); provided, however, nothing in this Agreement shall be construed to require IID to modify or enlarge its existing canal system to make water available to CEOE, and CEOE shall not be entitled to take water at a rate which will unreasonably deplete the supply available in the canal for other uses.

| <u>Canal</u> | <u>Delivery Gate</u> | <u>Cubic Feet Per Second</u> |
|--------------|----------------------|------------------------------|
| Vail 4A | 459 | 0-1.5 |
| Vail 4A | 460 | 0-1.5 |

In combination not to exceed 3 cubic feet per second per day from Vail 4A Del. Gate 459 and Vail 4a Del. Gate 460.

4.2. CEOE shall be responsible, at its sole cost and expense, for the construction, installation, and maintenance of any structures, facilities or improvements necessary in connection with its retrieval of water from said IID canal. The IID shall assist CEOE in obtaining any necessary easements, permits or other rights to transport said water from the Vail 4a Canal to the Project and CEOE may terminate this Agreement if it cannot reasonably obtain such permits.

4.3. To the extent that IID receives an order or directive from a governmental authority having appropriate jurisdiction, reducing the volume of water allocable to IID from the Colorado River, IID may reduce the Maximum Use Amount, as directed by the IID Board of Directors; provided, however, that in no event shall the ratio of (i) such reduction in the Maximum Use Amount to (ii) the total reduction of water allocable to IID from the Colorado River exceed the ratio of (a) the Maximum Use Amount to (b) the current total amount of water allocable to IID from the Colorado River.

5. DRAINAGE RIGHTS:

5.1. CEOE has represented to IID that the Project will be designed as a zero discharge system and as a result CEOE will not need drainage services that are typically provided to IID's industrial customers, with the exception of occasional rain run-offs which CEOE is allowed to discharge, from time to time, to the appropriate IID's discharge canal.

6. TERM:

6.1. The term of this Agreement shall commence on the Effective Date and shall remain in effect until terminated pursuant to this Section 6. The obligation of IID to furnish water to CEOE under this Agreement shall commence on the date CEOE initiates start-up and check-out operations of the Project which will utilize such water and shall terminate the earlier of:

6.1.1. 21 years following the Commercial Operation Date as such term is defined in the Power Sales Agreement dated November 6, 2001, between IID and CEOE.

6.1.2. At the option of the IID, thirty-six (36) months from the date the Project has ceased to operate.

6.2. The termination date for delivery of water from IID's canal system may be extended by mutual agreement of the parties. Any such extension must be in writing.

7. REQUIREMENTS NOTICE:

7.1. CEOE shall project the total quantity of water to be purchased by CEOE on an annual basis, to reflect the anticipated water requirements for the Project. CEOE shall on or before November 1st of each year, provide IID with written notice of the approximate quantity of water to be purchased during each month of the following calendar year ("Quantity Notice Letter"). Such amount shall constitute a good faith estimate on the part of CEOE, but shall not constitute a minimum or maximum quantity of water to be purchased during the specified period.

8. PAYMENT/BILLING:

8.1. For the right to take and use the water identified herein:

8.1.1. For water consumption up to the Historic Use Amount per calendar year during the Project Startup Period: CEOE shall pay a per acre-foot charge for water used by the Project at one-half of IID's industrial water rate as amended, from time to time, payable monthly.

8.1.2. For water consumption up to the Historic Use Amount per calendar year after the Project Startup Period: CEOE shall pay a per acre-foot charge for water used by the Project at IID's industrial water rate as amended, from time to time, payable monthly.

8.1.3. For water consumption above the Historic Use Amount per calendar year CEOE shall pay a per acre-foot charge for water used by the Project at IID's conserved water rate as amended, from time to time, payable monthly.

8.1.4. In lieu of payment at the conserved water rate for future water consumption above the Historic Use Amount per calendar year pursuant to section 8.1.3., CEOE may exercise an Initial Conservation Project Payment Election at any time during the term of the Agreement and pay IID an Initial Conservation Project Payment, the payment of which by CEOE to IID shall be deemed to constitute CEOE's exercise of its Initial Conservation Project Payment Election right, with no further action on CEOE's part; provided, however that CEOE shall not be deemed to have any obligation to make an Initial Conservation Project Payment until a financial closing occurs which enables CEOE to proceed with construction of the Project.

After making any such Initial Conservation Project Payment, (a) to the extent that CEOE's water consumption for the Project for any given calendar year exceeds the Historic Use Amount but does not exceed

Aggregate Requirement, for such year, CEOE shall pay the same rate for the resulting Excess Requirement as is applicable at such time for water consumption up to the Historic Use Amount per calendar year and (b) to the extent that CEOE's water consumption for the Project for any given calendar year exceeds the Aggregate Requirement, CEOE shall pay the applicable conserved water rate for the amount of such excess over the Aggregate Requirement. In lieu of payment at the conserved water rate for future water consumption above the Aggregate Requirement pursuant to clause b) above, CEOE may exercise a Supplemental Conservation Project Election at any time after making such Initial Conservation Project Payment, or Supplemental Conservation Project Payment(s), to pay IID one or more Supplemental Conservation Project Payments, subject to the same terms and conditions as the Initial Conservation Payment Election.

8.1.5. CEOE Project water shall be measured at the outlet of Vail 4a Del. Gate 459 and/or Vail 4a Del. Gate 460 or such other location the parties may agree to.

8.2. For the right to discharge into IID's drainage system, the parties agree that:

8.2.1. CEOE shall pay no charge for occasional rain run-offs discharged from time to time, to the appropriate IID's discharge drain, per section 5.1 of the Agreement. Process water shall not be allowed to discharge into the IID drainage system.

9. RULES AND REGULATIONS:

9.1. CEOE shall be obligated to comply with the "Rules and Regulations Governing the Distribution and Use of Water and Construction, Operation and Maintenance of the Canal and Drainage System of Imperial Irrigation District," in its present form or as it may be reasonably amended hereafter. Notwithstanding CEOE's obligation to comply with said Rules and Regulations, any conflict between this Agreement and said Rules and Regulations pertaining to CEOE's payment obligation set forth in Section 8 of this Agreement, shall be resolved in favor of the provisions of this Agreement.

10. GOVERNING LAW:

10.1 This Agreement shall be interpreted, governed by and construed under the laws of the State of California or the laws of the United States, as applicable, as if executed within and to be performed wholly within the state of California.

11. BINDING OBLIGATIONS; ASSIGNMENT:

11.1 This Agreement shall be binding upon and inure to the benefit of the parties and their successors and assigns. No party may assign or transfer its rights or

obligations under this Agreement without the prior written consent of the other party hereto. Such consent shall not be unreasonably withheld. However, without prior consent, IID may assign its rights under this Agreement as security for any water conservation financing IID might obtain in carrying out this Agreement. CEOE may, without prior consent, assign its rights to a lender, lessor, and/or trustee acting on behalf of a lender or lessor, or any other financing entity which acquires an interest in the Project (collectively "Financing Entities") in connection with any financing involving the Project. Notwithstanding the foregoing, IID agrees that no successor or assignee, including any such Financing Entity shall, by reason of any assignment, be subject to any liability or obligation hereunder, unless such party shall have elected to assume the role of CEOE under this Agreement, in which case such Financing Entities (or any transferee of the Project) shall become liable to perform such duties and obligations. In the event of an assignment of CEOE's rights hereunder to any Financing Entities, IID shall take such further actions and execute such documents as are reasonably requested by such Financing Entities to effectuate such assignment.

Solely with respect to any Financing Entity which acquires an interest in this Agreement, IID agrees to give written notice to such Financing Entities of any default and will afford such Financing Entities a reasonable period of time to commence appropriate action to cure such default, should they choose to do so and, in the event that this Agreement is terminated by reason of bankruptcy of any party, IID will, at the option of any Financing Entity, enter into a new contract with such Financing Entities or their successors or assigns, having terms similar to this Agreement.

12. NO THIRD PARTY RIGHTS:

12.1 Except as provided in Section 11.1, the parties do not intend to create rights and/or to grant remedies to any third party or others as a beneficiary of this Agreement or of any duty, covenant, obligation or undertaking established hereunder.

13. NO DEDICATION OF FACILITIES:

13.1 Any undertaking by one party to another party under any provision of this Agreement shall not constitute the dedication of the system or any portion thereof of the party to the public or to the other party, and it is understood and agreed that any such undertaking under any provision of this Agreement by a party shall cease upon the termination of its obligations hereunder.

14. NON-WAIVER:

14.1 None of the provisions of this Agreement shall be considered waived by any party except when such waiver is given in writing. The failure of any party to insist in anyone or more instances upon strict performance of any of the provisions of this Agreement or to take advantage of any of its rights hereunder shall not be construed as a waiver of any such provisions or their relinquishment of any such rights for the future, but the same shall continue and remain in full force and effect.

15. UNCONTROLLABLE FORCES:

15.1 No party shall be considered to be in default in the performance of any of its obligations under this Agreement when a failure of performance shall be due to an uncontrollable force. The term "Uncontrollable Force" shall mean any cause beyond the control of the party affected including, but not restricted to, flood, drought, earthquake, tornado, storm, fire, pestilence, lightning and any other natural catastrophe, epidemic, war, riot, civil disturbance or disobedience, strike, labor dispute, labor or material shortage, sabotage, acts, including restraint or enjoinder by proper authority, of civil or military authority (whether valid or invalid), inaction or non-action by or inability to obtain or keep the necessary authorizations or approvals from any governmental agency or authority, which by exercise of due diligence such party could not reasonably have been expected to avoid and which by exercise of due diligence it has been unable to overcome. Nothing contained herein shall be construed as to require a party to settle any strike or labor dispute in which it may be involved. Any party rendered unable to fulfill any of its obligations under this Agreement by reason of an uncontrollable force shall give prompt written notice of such fact to the other parties and shall exercise due diligence, and cooperate with any efforts of such other parties, to remove such inability with all reasonable dispatch.

16. WATER RIGHTS:

16.1 Nothing contained in this Agreement is intended or shall be construed to affect, alter, or in any way limit or restrict the rights held by IID by contract or law to divert or use Colorado River or restrict the rights held by CalEnergy Minerals, LLC, pursuant to the agreement between CalEnergy Minerals, LLC, and IID dated September 22, 1998. The right of the Project to use water hereunder is not cumulative, and it has no right in subsequent calendar year to water that is not used in a current calendar year. Any water that is not required to be made available for use by the Project in calendar year may be used by IID as it, in its sole discretion, shall determine.

17. LATE PAYMENT PENALTY:

17.1 If CEOE (solely with respect to the payments under Sections 8.1.1 and 8.1.2 fails to pay any amount when due, an interest charge on the unpaid amount due based on the late payment charge percentage calculated by the Department of the Treasury and published quarterly in the Federal Register (but not less than 0.5% per month) shall be added on the first day following the due date and monthly thereafter until the payment, any penalty and interest are paid in full. Additionally, if any payment is not made within three (3) business days after written notice received by the defaulting party, that such payment is overdue, a penalty of two percent (2%) of the amount due shall be added thereto.

18. TERMINATION:

18.1 If CEOE breaches this Agreement, including failure to make payment when due, IID shall have the following rights and remedies:

(a) If usage charges for water used by the project is not paid within sixty (60) days after written notice is received by CEOE and any Financing Entities, IID may suspend this Agreement with respect to such Project, and such Project shall have no further rights to use water hereunder until and unless such default (plus penalty and interest) is fully cured within an additional six months, after which time IID may terminate this Agreement with respect to such Project if such default is still outstanding.

(b) IID may charge penalties and interest only in accordance with paragraph 16 above.

(c) IID may institute any available and appropriate legal or equitable action to enforce the terms of this Agreement.

(d) IID may cease delivering water to CEOE upon the expiration of the period referenced in section 18.1(a).

18.2. IID may use any or all of these rights and remedies in case of CEOE's breach and if it selects one, shall not waive its rights to select or use any other. IID acknowledges (and will accept) that any Financing Entities or other parties which acquire an interest in the Project may cure any breach of this Agreement and such cure shall be considered as full performance hereunder.

19. NOTICES:

19.1 All notices, requests, demands and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been received when delivered or faxed or on the fifth business day following the

mailing, by registered or certified mail, postage prepaid, return receipt requested, thereof address as set forth below:

If to IID:

IMPERIAL IRRIGATION DISTRICT
Attention: General Manager
PO Box 937
333 E. Barioni Blvd.
Imperial, CA 92251

If to CEOE:

CE Obsidian Energy LLC
Attention: General Counsel
302 South 36th Street
Suite 400 L
Omaha, NE 68131

With copies to:

CE Obsidian Energy LLC
Attention: Vincent Signorotti
551 West Main Street
Suite 1
Brawley, CA 92227

Any party may change the addressee or address to which communications or copies are to be sent by giving notice of such change of addressee or address in conformity with the provisions of this paragraph for the giving notice.

20. CONDITIONS AND MISCELLANEOUS PROVISIONS:

20.1 CEOE is a limited liability company duly organized and validly existing in good standing under the Delaware Limited Liability Company Act, and has all requisite power and authority to enter into and perform its obligations hereunder. The execution, delivery and performance by CEOE of this Agreement has been duly authorized by all necessary action on the part of CEOE and does not require any approval or consent of any holder (or any trustee for any holder) of any indebtedness or other obligation of CEOE. This Agreement has been duly executed and delivered on behalf of CEOE by the appropriate officers of CEOE and constitutes the legal, valid and binding obligation of CEOE, enforceable against CEOE in accordance with its terms.

20.2 IID is an irrigation district duly organized and validly existing in good standing under the laws of the State of California, and has all requisite power and

authority to enter into and perform its obligations hereunder. The execution, delivery and performance by IID of this Agreement has been duly authorized by all necessary action on the part of IID and does not require any approval or consent of any holder (or any trustee for any holder) of any indebtedness or other obligation of IID. This Agreement has been duly executed and delivered on behalf of IID by the appropriate officers of IID and constitutes the legal, valid and binding obligation of IID, enforceable against IID in accordance with its terms.

20.3 This Agreement sets for the entire agreement between CEOE and IID with respect to the matters to herein, superseding all previous agreements, oral or written.

20.4 Any owner trustee (the "Owner Trustee") which acquires an interest in the Project shall only be liable hereunder from the income and proceeds of the trust estate created in connection with the financing pursuant to which the Owner Trustee acquires an interest in the Project (the "Trust Estate") and only to the extent that the Owner Trustee shall have received sufficient assets, income and/or proceeds from the Trust Estate to make such payments. Each of IID and CEOE agrees for itself and for its successors and assigns that, as against the Owner Trustee, it will look solely to the assets, income and/or proceeds of the Trust Estate for the payment of any amounts payable by the Owner Trustee is in no way personally liable for any such amounts or on account of any such representation, warranty, covenant or agreement, but nothing hereunder shall limit the liability of the Owner Trustee, for their comparative fault as established under California law.

IN WITNESS WHEREOF, CEOE and IID have caused this Agreement to be executed on the day and year first above written.

IMPERIAL IRRIGATION DISTRICT



By Stella Mendez
President

ATTEST: Gloria A. Rivera
Secretary

CE OBSIDIAN ENERGY LLC

By [Signature]
Vice President